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# FAX

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ATTN: Mr. Daniel P Ducore, Assistant Director, Bureau of  
Competition

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**PUBLIC COMMENT RE SALE OF BENICIA  
EXXON REFINERY TO VALERO ENERGY  
CORP.**

April 9, 2000

To: Federal Trade Commission (via FAX)  
Office of the Secretary  
600 Pennsylvania, N.W.  
Washington, DC 20580; and

State of California  
Office of the Attorney General  
Sacramento, CA.

Subject: Public Comment on Sale of Benicia Refinery to Valero Energy Corporation

1. The following comments are offered for consideration as pertinent to the approval of the sale of the Benicia Exxon Refinery to the Valero Energy Corporation. The comments are based on the limited, but presumably authoritative, data available to the respondent. I respond as a private citizen of the City of Benicia and have no present or past affiliation with either of the companies involved or the refinery industry.
2. My bottom line concerns are primarily environmental but inasmuch as environmental issues are a fundamental of the refinery industry, they should be viewed as issues which directly affect the potential competitiveness of Valero as the operator of the Benicia refinery and possibly their ability to proactively address environmental responsibilities. Thus, my concerns should be viewed through the "lens of competition" metric.
3. This acquisition, if approved, will be the third major one by Valero since 1997 if one considers their Texas City, Houston and Krotz Springs refineries as a single package given their acquisition as part of the Valero and Basis Petroleum deal. At the end of the day the process of bringing a total of five refineries into the Valero Co. in a very short span of time appears to represent very significant management and daunting fiscal challenges for what seems to be a medium level player within the industry.
4. It appears that the acquisition will nearly double the company's long term debt and its net interest and debt expense had already increased 71% to \$55.4M from 1998 to 1999. The company in fact filed on March 31, 2000 to sell up to \$1 billion in debt and equity issues. Even before the acquisition the "current ratio" of the company was only 1.15 as derived from data in the Form 10-K filed with the SEC for the year ended December 31, 1999. Moreover the "quick ratio" according to my calculation of the data in the 10K was just .60. None of these figures seem to be strong and do not figure to impress potential investors and may force far more debt than equity issues.
5. The company, on paper at least, suffered a significant net loss in 1998 (\$47M +). This was due to a write-down of inventory to market value but illustrates the volatility of even current assets in this industry. It is noted the purchase price of the Exxon facility with

outlets is \$895M plus inventory. Thus the company may wind up paying for inventory which might have to be significantly discounted in the short term if the price of petroleum products drop either as a result of market forces, the upcoming election or both.

6. From a competitive standpoint Valero seems to be especially vulnerable to industry volatility inasmuch as it is not fully integrated and must purchase all of its crude oil and feedstock supplies from third parties. Clearly this is a competitive disadvantage - especially in volatile periods - despite the fact that the purchase agreement with Exxon apparently guarantees some supplies. As I understand it, however, the guarantee is for less than the Benicia refinery capacity and at market rates. Thus the advantage gained from this guaranteed supply is somewhat marginalized.

7. According to the 10K, to enhance their future competitive position, "...Valero expects to continue making capital improvements to increase the throughput capacity of its refinery facilities and increase their operational flexibility." This might be problematic given possible fiscal and permit constraints. Therefore such plans might be difficult to execute on a timeline which would insure continued competitiveness.

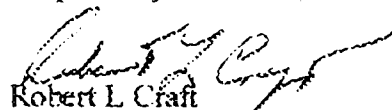
8. I don't have access to the appropriate supporting data but Valero's projections for net income based on the Benicia assets seem to be very optimistic. If the targets cannot be met, the impact on Valero's financial condition and ability to compete might be significant. They project a net income (from Benicia) of \$26.3M in 2000 -- six months of operations -- and \$87.5M in 2001 for a full year of operations. It is difficult to extrapolate more than a threefold increase in net income from just six months more of operational activity especially when their projections for other assets is nearly flat for 2001 vs. 2000.

9. As I noted at the beginning, my concern is primarily environmental. But what seems to be less than an ideal fiscal situation may not bode well for the environment in Benicia absent upfront safeguards which are Benicia specific. I know little about Valero's environmental record but what little I do know is not encouraging. The Company's Corpus Christi refinery has apparently been ranked by the EPA as one of the dirtiest 11 major plants in one region of Texas. The Corpus Christi operation is Valero's flagship refinery, at least in terms of feedstock throughput capacity, thus its apparent standing with the EPA is even more disturbing. The company's debt structure subsequent to the Benicia acquisition will seemingly demand maximum profits and intuitively one knows that a dollar saved on environmental matters is a dollar which can be moved directly to the bottom line.

10. The Benicia refinery in its current location is a given and I am not opposed to Valero per se but I am concerned. It is important that Valero (or any other operator) meet all of its environmental responsibilities, both legal and moral, in addition to being a positive competitive influence within the California market. If my analysis as set forth above is reasonably accurate I recommend that, as a condition of approval, Valero be directed to enter into a negotiated good neighbor agreement with an appropriate citizens group, the Benicia City government and perhaps the Solano County government. I further

recommend that the company be directed to set aside a reserve fund sufficient to insure that the good neighbor agreement is adequately funded. Ideally, the amount to be set aside in such a fund should be determined by the California Attorney General in conjunction with other appropriate authorities.

Respectfully submitted,



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